

Message Text

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PAGE 01 LONDON 12704 01 OF 02 021451Z
ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-01 PA-01 PRS-01 IO-13 /106 W
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R 021437Z AUG 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 6727
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY PARIS
AMEMBASSY BRUSSELS

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 12704

USEEC
USOECN ALSO FOR EMBASSY

E.O. 11652: GDS
TAGS: EFIN, UK
SUBJECT: THE UK'S IMF DRAWINGS AND COMMITMENTS

REF: A) LONDON 12122 B) LONDON 11119

SUMMARY: THE UK IS UNLIKELY TO MAKE A MAJOR CHANGE IN ITS
STANDBY STATUS WITH THE IMF BEFORE NOVEMBER. POLITICAL AS
WELL AS ECONOMIC CONSIDERATIONS WILL UNDOUBTEDLY INFLUENCE
THE OUTCOME. END SUMMARY

1. THE EMBASSY HAS REPORTED IN DETAIL ON PRESSURES THAT
WILL BE BUILDING UP FOR THE UK TO RELINQUISH ITS CALLS ON
THE IMF, AND, CONCOMITANTLY, TO ESCAPE FROM THE RE-
STRICTIONS IMPOSED BY THE IMF ON THE UK'S ECONOMIC MANEUV-
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PAGE 02 LONDON 12704 01 OF 02 021451Z

ERABILITY. REF A WENT INTO CONSIDERABLE DETAIL ON THE
VARIOUS POSSIBILITIES ON THE OUTLOOK FOR THE BRITISH ECONO-
MY THROUGH 1978.

2. AS REPORTED EARLIER, THE UK WILL MOST PROBABLY TAKE
ITS 320 MILLION SDR TRANCHE DUE AUGUST 25. IF THE BALANCE
OF PAYMENTS AND THE ECONOMY GO WELL, IT MAY NOT DRAW

ON TRANCHES AVAILABLE AFTER THAT, GIVEN THE STRONG POLITICAL PRESSURES TO DIMINISH IMF INFLUENCE ON THE ECONOMY. WHEREAS SENIOR HMT AND BANK OF ENGLAND STAFF WOULD PREFER TO HOLD THE CONDITIONS IMPOSED IN THE IMF LETTER OF INTENT THE PRIME MINISTER AND THE CHANCELLOR ARE COMING UNDER INCREASING POLITICAL PRESSURE TO RELAX THEM.

3. REF B REPORTED THE PRIME MINISTER'S REACTION TO A LEFT WING LABOR MP'S STATEMENT THAT THE TIME HAD COME FOR BRITAIN TO TAKE ACTION ON ITS OWN BY CANCELLING THE IMF LOAN AND STARTING A PROGRAM OF REFLATION WITHOUT DELAY. THE PRIME MINISTER REPLIED THAT IT WAS NECESSARY TO CONSIDER THE EFFECT OF CANCELLATION ON INTERNATIONAL CONFIDENCE IN BRITAIN.

4. OVER THE WEEKEND, (IN THE OBSERVER AND THE TIMES) THERE WERE FRONT-PAGE ARTICLES REPORTING THAT "OVERSEAS MONEY IS POURING IN" AND "HOPEFUL HEALEY HOPES TO END IMF BORROWING." MICHAEL JONES, POLITICAL CORRESPONDENT OF THE TIMES, (SUNDAY JULY 31 EDITION) REPORTS THAT PRIME MINISTER CALLAGHAN AGREED WITH UNION LEADERS AT LAST WEEK'S MEETING OF THE TUC-LABOR PARTY LIAISON COMMITTEE THAT THE TIME IS NOW IN SIGHT "WHEN THE IMF AGREEMENT WILL NO LONGER BE NECESSARY." JONES SAYS "MINISTERS SAY THIS OPTIMISM IS SUPPORTED BY THE STRENGTH OF STERLING (UNAFFECTED BY THE TUC'S REFUSAL TO ENDORSE A NEW PAY CEILING FOR 1978),
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PAGE 03 LONDON 12704 01 OF 02 021451Z

OFFICIAL CERTAINTY THAT PRICE INFLATION WILL FALL RAPIDLY IN THE NEXT FEW MONTHS AND BRITAIN'S VAST NORTH SEA OIL WEALTH." THE ARTICLE STATES FLATLY THAT BRITAIN WILL NOT TAKE ITS 320 MILLION SDR ALLOCATION SCHEDULED FOR NOVEMBER.

5. SENIOR HMTREASURY OFFICIAL AT UNDER SECRETARY LEVEL RESPONSIBLE FOR IMF AFFAIRS REPORTS THAT TO HIS KNOWLEDGE THE PRESS ARTICLES ARE THE RESULT OF SPECULATION RATHER THAN INSPIRED BACKGROUND BRIEFINGS, ALTHOUGH THE POSSIBILITY THAT THE CHANCELLOR MAY HAVE HAD A FEW WORDS WITH JOURNALISTS IS NOT DISCOUNTED.

6. ADDRESSING HIMSELF TO THE GENERAL ISSUE AND STRESSING VIEWS BEING GIVEN WERE PERSONAL, SOURCE SAID THAT THIS AFTERNOON'S ANNOUNCEMENT ON RESERVES WILL SHOW A LARGE INCREASE. THIS IS EXPECTED BY THE FOREIGN EXCHANGE MARKETS AND THE PRESS. SOME OF THE MONEY "HAS A HOT CHARACTER" BUT IF RESERVES REMAIN HIGH DURING COMING MONTHS, A DECISION WILL HAVE TO BE MADE ON DOES THE UK NEED TO DRAW FURTHER ON ITS STANDBY? THERE IS A FIRM OFFICIAL DECISION ALREADY TAKEN TO DRAW THE 320 MILLION SDR AVAILABLE IN AUGUST. SOURCE CONSIDERED IT UNLIKELY THIS DECISION WOULD

BE CHANGED. IT IS "FIRM" AS OF NOW.

7. WHAT IS LIKELY TO HAPPEN IS THAT THE TREASURY AND BANK

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PAGE 01 LONDON 12704 02 OF 02 021447Z
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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 12704

ENGLAND WILL CLOSELY WATCH RESERVES DURING THE NEXT THREE MONTHS. THERE IS A MAJOR DIFFERENCE BETWEEN REFRAINING FROM DRAWING ON A STANDBY VS BREAKING COMMITMENTS TO THE IMF AND REPAYING EXISTING DEBT AHEAD OF TIME. A GOOD DEAL OF CONFUSION EXISTS ON THIS POINT WITHIN HMG AND AMONG MINISTERS. IF RESERVES CONTINUE TO INCREASE, THE SOURCE CONSIDERED THE UK WAS LIKELY TO REFRAIN FROM DRAWING ON THE STANDBYS SCHEDULED FOR NOVEMBER 25 AND LATER BUT THAT IT WOULD SEEK TO MAINTAIN ITS ELIGIBILITY TO DRAW AND MEET ITS COMMITMENTS TO THE FUND. SOURCE STRESSES THIS WAS A PERSONAL VIEW OF WHAT IS DESIRABLE, WHICH COULD BE OVERRIDDEN BY MINISTERS OR BY A CABINET DECISION. THE NEXT IMF MISSION IS DUE IN THE UK IN NOVEMBER, WHEN UK PERFORMANCE THROUGH NOVEMBER 77 WILL BE ASSESSED AND COMMITMENTS UNDER THE STANDBY IN FY78/79 DISCUSSED. IF ANY MAJOR CHANGES IN UK RELATIONSHIP WITH IMF ARE TO TAKE PLACE,

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PAGE 02 LONDON 12704 02 OF 02 021447Z

THEY WOULD LIKELY SURFACE DURING THE NOVEMBER DISCUSSIONS
WITH THE FUND.

8. COMMENT: NONE OF THE ABOVE IS UNEXPECTED. WITH THE
NEXT IMF SURVEILLANCE DUE IN LATE OCTOBER--EARLY NOVEMBER,
WE CONSIDER IT UNLIKELY THAT THE UK WILL MAKE A MAJOR
CHANGE IN ITS STANDBY STATUS BEFORE THEN. HMTREASURY SEN-
IOR OFFICIALS CERTAINLY WOULD BE OPPOSED TO SUCH A
MOVE. POLITICAL AS WELL AS ECONOMIC CONSIDERATIONS WILL
UNDOUBTEDLY INFLUENCE THE EVENTUAL OUTCOME.

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